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<u>Set</u> Name Query <small>side by side</small>	<u>Hit</u> Count	<u>Set</u> Name <small>result set</small>
<i>DB=PGPB,USPT,USOC,EPAB,JPAB,DWPI,TDBD; PLUR=YES; OP=OR</i>		
<u>L18</u> L15 and 705.clas.	130	<u>L18</u>
<u>L17</u> L15 and 705/35	25	<u>L17</u>
<u>L16</u> L15 and 705/37	59	<u>L16</u>
<u>L15</u> L14 and (market with makers or market near makers or market adj makers)	137	<u>L15</u>
<u>L14</u> L13 and (security or commodity or money or shares) and (sale or trade or swap)	2236	<u>L14</u>
<u>L13</u> (forex or "fx" or cross with rate or foreign with currency with exchange or international with currency with exchange)	80885	<u>L13</u>
<u>L12</u> (forex or "fx" or cross with rate or foreign with exchange or international with exchange)	85594	<u>L12</u>
<i>DB=USPT; PLUR=YES; OP=OR</i>		
<u>L11</u> '5903882'.pn.	1	<u>L11</u>
<u>L10</u> '6247000'.pn.	1	<u>L10</u>
<u>L9</u> '6321212'.pn.	1	<u>L9</u>
<u>L8</u> '6347307'.pn.	1	<u>L8</u>

<u>L7</u>	'6347307'.pn.	1	<u>L7</u>
<i>DB=PGPB,USPT,USOC,EPAB,JPAB,DWPI,TDBD; PLUR=YES; OP=OR</i>			
<u>L6</u>	L5 and (market near makers or market with makers or market adj makers)	17	<u>L6</u>
<u>L5</u>	L4 and exchange near shares and (currency or money)	63	<u>L5</u>
<u>L4</u>	(stock with exchange or stock near exchange or stock adj exchange)	5943	<u>L4</u>
<u>L3</u>	6278982.pn.	2	<u>L3</u>
<u>L2</u>	5963923.pn.	2	<u>L2</u>
<u>L1</u>	20020010673.pn.	2	<u>L1</u>

END OF SEARCH HISTORY

[First Hit](#) [Fwd Refs](#)[Previous Doc](#)[Next Doc](#)[Go to Doc#](#)

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L6: Entry 15 of 17

File: USPT

Oct 4, 2005

DOCUMENT-IDENTIFIER: US 6952683 B1

TITLE: System and method for hedging against foreign exchange risk associated with securities transactions

Abstract Text (1):

A method for hedging an investor against a currency risk associated with a purchase of a security having a value, the investor having purchased the security in a foreign currency and the investor desiring to receive the proceeds from a sale of the security in a home currency. The foreign currency and home currency have an exchange rate at the time of the purchase and an exchange rate at the time of the sale. The method includes the steps of receiving a request for hedging against the currency risk for a time period. Next, a cost is calculated for hedging against the currency risk based on the foreign currency, the home currency, the exchange rate at the time of the purchase, the value and the time period. Next, the investor is provided with the proceeds from the sale based on the exchange rate at the time of the sale if the exchange rate at the time of the sale is greater than the exchange rate at the time of the purchase. Finally, the investor is provided with the proceeds from the sale based on the exchange rate at the time of the purchase if the exchange rate at the time of the purchase is greater than or equal to the exchange rate at the time of the sale.

Brief Summary Text (3):

There has been a rapid increase in the number of securities of foreign companies that are traded in the U.S. financial markets, such as the New York Stock Exchange, the American Stock Exchange, NASDAQ and the over-the-counter markets. In addition, there has been an increasing interest on the part of U.S. investors regarding securities traded on foreign markets. These trends demonstrate a shift to a global cross-border trading network in which investors can trade in foreign securities as easily as trading in domestic securities.

Brief Summary Text (4):

A potential impediment to the establishment of a global trading network is that investors that trade in instruments in currencies other than their home currency will be exposed to the risks associated with the change in foreign exchange rates. For example, if a Japanese investors purchases 100 shares of XYZ corp. trading on the NASDAQ for \$10 a share, the transaction would cost the investor 100,000 yen, assuming the exchange rate was 100 yen to the dollar at the time of the transaction. If the investor decides to sell the XYZ shares at a time when the exchange rate is 95 yen to the dollar, the investor would incur a 5% loss associated with the fluctuation in the foreign exchange rate. This added risk may deter an investor from trading in a foreign security.

Brief Summary Text (5):

There are existing techniques for protecting against the fluctuation of foreign exchange risks. For example, a buyer of an FX call option has right to purchase a specified amount of foreign currency at a specified exchange rate at a specified time. By purchasing an FX option for the currency the investor wishes to receive upon selling the foreign security, the investor can minimize the risk associated with the fluctuation of that currency.

Brief Summary Text (6):

FX options, however, are unsuitable for providing insurance against foreign exchange risks associated with a security transaction for several reasons. First, the use of FX options would add a layer of complexity to the security transaction by requiring the investor to be familiar with option investing and the use of calls and puts to hedge a position. Also, FX options are typically for fixed amounts of currency, for e.g. \$100,000, and do not generally match the amount of currency risk associated with a typical securities transaction (in which the average order size in securities transaction is \$15,000). Furthermore, the strike prices of FX options for a particular currency pair are predefined by the foreign exchange market makers and will often not match the exact exchange rate at which a specific securities transaction took place. In addition, FX option are normally "European style" in which case the premium does not strictly follow the exchange rate movements so that only partial FX risk protection is achieved. Also, European style options can only be exercised at expiry so they are not useful for protecting a specific equity position that may be terminated by the investor at any time. Finally, FX options are not easily purchased on-line so that equity investors will have to undergo a potentially time consuming process to hedge the FX risk associated with their foreign equity investment.

Brief Summary Text (7):

Another technique of hedging FX risks is the purchase of currency certificates. Currency certificates, however, also suffer from some of the same drawbacks as FX options including the introduction of added complexity to the securities transaction, standard certificate amounts that do not match the size of the hedge needed and predefined strike levels that do not match the exchange rate of the particular securities transaction.

Brief Summary Text (8):

A method for generating and executing an insurance policy for foreign exchange losses is disclosed in U.S. Pat. No. 5,884,274 (the "'274 patent"). The '274 patent teaches a method by which individual travelers can lock in favorable exchange rates for a particular foreign currency thereby eliminating the need to either purchase the foreign currency or an instrument denominated in the foreign currency, such as traveler's checks. Under the method of the '274 patent, an insurance policy is provided to the traveler based on the traveler's preferences including a specified currency, the amount of coverage and the period of coverage. The method then calculates the premium cost of the insurance policy based on the current exchange pair as well as an estimate of the volatility of the currency. Once the traveler purchases the foreign exchange policy for a particular exchange rate, that exchange rate is locked in for the amount of time and coverage specified in the policy. Thus, when the traveler makes a purchase in the foreign currency using a credit card, the exchange rate at the time of the purchase is compared to the exchange rate of the insurance policy to determine if the traveler is entitled to foreign exchange adjustment. Similarly, insurance coverage may be provided when the traveler withdraws the foreign currency from an ATM or from a bank.

Brief Summary Text (9):

Although the '274 patent discloses providing individuals an insurance policy against foreign exchange loss for a desired currency amount and for a desired period of time, the '274 patent does not teach a method for providing a hedge to investors against foreign exchange risks associated with the purchase of financial instruments, such as equity securities, in currencies other than their home currency. Furthermore, the method disclosed in '274 patent is not suitable for providing a hedge against foreign exchange losses associated with trading foreign equity securities. First, in the '274 patent, once the purchased coverage amount specified by the insurance policy is exceeded, the traveler is no longer protected against currency fluctuations. With respect to a purchase of an equity instrument, however, such a limitation in coverage amount is undesirable because the amount of coverage required fully to hedge against FX losses may increase in the event the

security appreciates. Also, the insurance coverage provided by the method of the '274 patent is limited to the coverage period specified in the policy after which time the traveler's purchases are not covered. For a traveler wishing FX risk protection, such a limitation is not especially problematic because the traveler can generally specify a coverage period tied to a planned travel schedule. In contrast, investors in financial instruments cannot predict at what time in the future they will exit a particular position so a policy with a fixed coverage period will not be particularly useful.

Brief Summary Text (10):

Accordingly, it is desirable to provide a method and system by which investors that trade in financial instruments in foreign currencies can easily purchase a hedge against the foreign exchange risk associated with a particular trade.

Brief Summary Text (12):

The present invention is directed to overcoming the drawbacks of the prior art. Under the present invention, a system and method is provided for hedging an investor against a currency risk associated with a purchase of a security having a value, the investor having purchased the security in a foreign currency and the investor desiring to receive the proceeds from a sale of the security in a home currency. The foreign currency and home currency have an exchange rate at the time of the purchase and an exchange rate at the time of the sale. The method includes the steps of receiving a request for hedging against the currency risk for a time period. Next, a cost is calculated for hedging against the currency risk based on the foreign currency, the home currency, the exchange rate at the time of the purchase, the value of the security and the time period. Next, the investor is provided with the proceeds from the sale based on the exchange rate at the time of the sale if the exchange rate at the time of the sale is greater than the exchange rate at the time of the purchase. Finally, the investor is provided with the proceeds from the sale based on the exchange rate at the time of the purchase if the exchange rate at the time of the purchase is greater than or equal to the exchange rate at the time of the sale.

Brief Summary Text (13):

In an exemplary embodiment, if the value of the security appreciates after the purchase, the method includes the step of calculating the cost for hedging against the currency risk based on the appreciated value of the security.

Brief Summary Text (14):

In an exemplary embodiment, if the investor desires to extend the time period for hedging against the currency risk, the method includes the step of calculating the cost for hedging against the currency risk based on the extended time period.

Brief Summary Text (15):

Accordingly, a method and system is provided by which investors that trade in financial instruments in foreign currencies can easily purchase a hedge against the foreign exchange risk associated with a transaction involving a particular security.

Drawing Description Text (3):

FIG. 1 is a block diagram of the system of the present invention for enabling an investor to purchase a security and hedge against a currency risk associated with such a purchase;

Drawing Description Text (5):

FIG. 3 is a flow chart of the method of the present invention for calculating the cost for hedging against foreign exchange currency risk associated with an executed securities transaction.

Detailed Description Text (2):

Referring now to FIG. 1, there is shown a block diagram of a system 1 for enabling an investor to purchase a security and hedge against a currency risk associated with such a purchase. In communication with system 1 is a securities exchange 5 through which an investor's transaction in a particular security is executed, such as the New York Stock Exchange, the American Stock Exchange, NASDAQ and the over-the-counter markets. Also in communication with system 1 is a foreign exchange data source 7 for providing system 1 with real-time foreign exchange data. A trading station 3, operated by, for example, an investor or the investor's agent, communicates with system 1 for the purpose of executing transactions in securities and purchasing a hedge for such transactions through system 1. Trading station 3 may be, by way of non-limiting example a personal computer executing a software program designed to interact with system 1 and trading station 3 may communicate with system 1 using any known method including, but not limited to, the Internet or dedicated communications lines.

Detailed Description Text (3):

System 1 includes a user interface module 9 that communicates with trading station 3 for managing the interactions between trading station 3 and system 1 including receiving requests from the investor to transact in a particular security, reporting to the investor confirmations associated with such transaction and coordinating the specification and purchase of a currency risk hedge associated with such transaction.

Detailed Description Text (5):

Also included in system 1 is a hedge pricing engine 13. Hedge pricing engine 13 receives from the investor, via user interface module 9, a request for hedging a particular securities transaction, for a specified time period, against a currency risk associated with the fluctuation of the exchange rate between the investor's home currency and the foreign currency in which the securities transaction took place. Upon receipt of the request for a hedge, hedge pricing engine 13 receives from trading engine 11 the details of the particular transaction for which a hedge is sought, including the value of the transaction and whether the transaction was a purchase or a sale. Hedge pricing engine 13 also receives from foreign exchange data source 7 real-time foreign exchange data including the exchange rate between the foreign currency and the home currency that existed at the time the securities transaction was executed. Based on the exchange rate in effect at the time of the securities transaction, the value of the securities transaction and the time period selected by the investor, hedge pricing engine 13 calculates a cost for insuring the securities transaction against foreign exchange risks. Once the cost for foreign exchange risk hedge is calculated, the cost for the hedge is presented to the investor, via user interface module 9, at which point the investor may select to purchase the hedge.

Detailed Description Text (7):

In another exemplary embodiment, the hedging transaction may be executed using tradable currency certificates of the bear type having standardized strike levels and standardized maturity dates but being broken down into e.g. one currency unit like one dollar. If an investor intends to hedge e.g. the exchange rate risk associated with a securities transaction having a transaction value of 14.320 dollars, the hedging transaction thus has a volume of 14.320 currency certificates, each currency certificate allows the sale of one dollar at the maturity date with a specific exchange rate, i.e., the strike level. As mentioned above, currency certificates have standardized strike levels. The currency certificate for purchase depends on the current exchange rate. Generally, currency certificates having a strike level close to the current exchange rate are automatically chosen by the system. The cost of a currency certificate having a particular maturity date and a particular strike level depends on the current exchange rate. Since currency certificates are generally tradable, linking between the position of the securities transaction and the position of the hedging transaction of currency certificates is not required. In other words, the currency certificates may be sold by the investor

independently from the exchange traded item of the primary transaction.

Detailed Description Text (9):

On the other hand, if the hedging transaction uses currency certificates broken down to a small currency unit, the cost of hedging the securities transaction depends on the value of the securities transaction as well as on the specific currency certificate chosen. Upon execution of the securities transaction, pricing engine 13 determines the hedging price by selecting a suitable currency certificate based on the current exchange rate and by multiplying the price of a single selected currency certificate with a number of currency certificates required to hedge the transaction value or a user-selected fraction thereof. Because currency certificates have standardized strike levels, the specific currency certificate is selected by pricing engine 13 for determining the hedging price, such that the difference between the available strike levels and a current exchange rate received from FX data source 7 is minimized. Because currency certificate have standardized maturity dates, the hedging time period may not be freely selected by the investor. Instead, pricing engine 13 sends the investor, via use interface module 9, a hedging offer comprising several hedging prices relating to different maturity dates. The investor may then select a specific maturity date, i.e., hedging period, and the corresponding selection request of the investor is used for executing a hedging transaction.

Detailed Description Text (10):

Referring now to FIG. 2, there is shown a flow chart of the method for receiving securities transaction and hedge requests from the investor according to the present invention. Initially, in Step 1, the investor submits a request to system 1 to purchase a security, for example 200 shares of XYZ Corp. stock. Next, in Step 2, system 1 asks the investor whether the investor would like to buy a hedge to protect against currency fluctuations associated with the purchase of XYZ Corp. shares. If the investor declines to purchase a hedge, the investor's request to purchase XYZ Corp. stock is processed, as in Step 3, according to procedures that are well known in the art. If the investor indicates that a hedge is desired, in Step 4 system 1 determines whether the order to purchase XYZ Corp. stock was a limit order. If the order was not a limit order, then in Step 5, the order to purchase 200 shares of XYZ Corp. stock is executed. System 1 then determines, in Step 6, if the 200 share order was completed. If it was, then the transaction is booked and settled, in Step 7.

Detailed Description Text (11):

If the order was a limit order, or if the order was partially filled, then in Step 8, system 1 watches the unfilled orders to determine when the pricing and availability of XYZ Corp. stock on securities exchange 5 is such that the unfilled order may be filled. When that occurs, the method proceeds to Step 5 where the unfilled orders are executed.

Detailed Description Text (12):

Referring now to FIG. 3, there is shown a flow chart of the method for calculating the cost for hedging against foreign exchange currency risk associated with an executed securities transaction. With each order execution in shares of XYZ Corp. in Step 5, the method proceeds to calculate a cost for hedging against the FX risk associated with those shares. In Step 9, system 1 requests from investor a time period for which the investor desires the hedge. For example, if the investor expects to hold the position in XYZ Corp. stock for one year, then the investor may request that the hedge provide coverage going out one year. Once the investor selects the hedge time period, in Step 10, the system calculates the cost for the hedge based on the value of XYZ Corp. shares, the exchange rate between the investor's home currency and the foreign currency in which the investor purchased the XYZ Corp. shares and the hedge time period. Because the investor's single request to purchase 200 shares of XYZ Corp. may be executed, for example, in two 100 shares parts because of market conditions or because the investor placed a

limit order, the cost for the hedge must be calculated for each 100 share part separately based on the foreign exchange rate at the time each part of the order was executed and the value of each part of the order. Once the cost for the hedge is calculated, in Step 11 system 1 asks whether the investor desires to purchase the hedge. If the investors chooses to purchase the hedge, then in Step 12 the hedge for the purchase of 200 shares of XYZ Corp. is put into effect. If the investor determines that a different hedge time period is more desirable, then the investor is given the opportunity, in Step 13, to have the cost for the hedge recalculated using the more desirable time period. If, however, the investor decides against purchasing the hedge, then the method proceeds to Step 14 in which case the transaction in XYZ Corp. stock remains unhedged against FX risks.

Detailed Description Text (15):

When the investor sells the security for which an FX risk hedge was purchased, the investor will receive the proceeds from the sale in the investors home currency based on the better of the exchange rate at the time of the purchase or the exchange rate at the time of the sale. For example, if the exchange rate at the time of the purchase of the securities was 100 yen to one dollar, and the exchange rate at the time of the sale was 110 yen to one dollar, then the investor (who is receiving the sale proceeds in yen) will receive the sale proceeds based on 110 yen to the dollar, as this is the higher exchange rate. In this case, because the exchange rate at the time of the sale was more favorable to the investor than the exchange rate at the time of the purchase, the investor does not utilize the benefits of the hedge coverage. If, on the other hand, the exchange rate at the time of the sale is 95 yen to the dollar, then the investor will receive the sale proceeds based on 100 yen to the dollar, the exchange rate in effect at the time of the purchase of the securities. In this case, the investor uses the benefit of the hedge coverage.

Detailed Description Text (17):

Accordingly, the present invention provides a method and system by which an investor can easily purchase a hedge against the foreign exchange risk associated with a transaction involving a the purchase of a security in a foreign currency. In addition, according to the present invention, the investor can have the hedge coverage adjusted to cover FX risks associated with an extended time period as well the appreciation of the security.

Other Reference Publication (2):

<<Hedging Currency Risks--Dynamic Hedging Strategies Based on O & A Trading Models>> by Ulrich A. Muller, Jun. 28, 1995, 11 pages.

CLAIMS:

1. A method for hedging an investor against a currency risk associated with a purchase of a security having a value, said investor purchasing said security in a foreign currency and said investor desiring to receive proceeds from a sale of at least a portion of said security in a home currency, said foreign currency and said home currency having an exchange rate at the time of said purchase and an exchange rate at the time of said sale, said method comprising the steps of: receiving a request for hedging against said currency risk for a time period; calculating a cost for hedging against said currency risk based on said foreign currency, said home currency, said exchange rate at the time of said purchase, said value and said time period; providing the investor with said proceeds from said sale based on said exchange rate at the time of said sale if said exchange rate at the time of said sale is greater than the exchange rate at the time of said purchase; and providing the investor with said proceeds from said sale based on said exchange rate at the time of said purchase if said exchange rate at the time of said purchase is greater than or equal to the exchange rate at the time of said sale, wherein at least one of said steps is performed by a computer.

2. The method of claim 1, wherein said value of said security appreciates after said purchase, and the step of calculating a cost includes the step of: calculating said cost for hedging against said currency risk based on said appreciated value of said security.
3. The method of claim 1, wherein said investor desires to extend the time period for hedging against said currency risk, and the step of calculating a cost includes the step of: calculating said cost for hedging against said currency risk based on said extended time period.
4. The method of claim 1, wherein said purchase is a limit order purchase comprising a plurality of individual purchases each having a value and wherein said calculating step includes the step of: calculating a cost for hedging against said currency risk for each of said plurality of individual purchases based on said foreign currency, said home currency, said exchange rate at the time of said each of said plurality of individual purchases, said value of said each of said plurality of individual purchases and said time period.
5. The method of claim 1, further comprising the step of: hedging against the currency risk using an American-style non-tradable foreign exchange option.
6. The method of claim 1, further comprising the step of: hedging against the currency risk using currency certificates of the bear type having standard strike levels and maturity dates and being broken down into currency units.
7. A system for hedging an investor against a currency risk associated with a purchase of a security having a value, said investor purchasing said security in a foreign currency and said investor desiring to receive proceeds from a sale of at least a portion of said security in a home currency, said foreign currency and said home currency having an exchange rate at the time of said purchase and an exchange rate at the time of said sale, said investor desiring to insure against said currency risk for a time period, the system comprising: a foreign exchange rate data source; and a pricing engine, said pricing engine receiving said exchange rate at the time of said purchase and the exchange rate at the time of said sale from said foreign exchange rate data source, said pricing engine calculating a cost for hedging against said currency risk based on said foreign currency, said home currency, said exchange rate at the time of said purchase, said value and said time period; wherein the investor is provided with said proceeds from said sale based on said exchange rate at the time of said sale if said exchange rate at the time of said sale is greater than the exchange rate at the time of said purchase and the investor is provided with said proceeds from said sale based on said exchange rate at the time of said purchase if said exchange rate at the time of said purchase is greater than or equal to the exchange rate at the time of said sale.
8. The system of claim 7, wherein said value of said security appreciates after said purchase, and wherein said pricing engine calculates said cost for hedging against said currency risk based on said appreciated value of said security.
9. The system of claim 7, wherein said investor desires to extend the time period for hedging against said currency risk, and wherein said pricing engine calculates said cost for hedging against said currency risk based on said extended time period.
10. The system of claim 7, wherein said purchase is a limit order purchase comprising a plurality of individual purchases each having a value and wherein said pricing engine calculates a cost for hedging against said currency risk for each of said plurality of individual purchases based on said foreign currency, said home currency, said exchange rate at the time of said each of said plurality of individual purchases, said value of said each of said plurality of individual purchases and said time period.

12. The system of claim 11, further comprising a trading station, said pricing engine receiving from said trading station said time period for hedging against said currency risk.

[Previous Doc](#)

[Next Doc](#)

[Go to Doc#](#)

[First Hit](#) [Previous Doc](#) [Next Doc](#) [Go to Doc#](#)

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L16: Entry 16 of 59

File: PGPB

Jan 23, 2003

DOCUMENT-IDENTIFIER: US 20030018561 A1

TITLE: Single party buying and selling commodities with multiple counterpartiesClassification at Publication, US Primary Class/Subclass:705/37Summary of Invention Paragraph:

[0005] Conducting transactions through brokers or other intermediaries, including on markets or exchanges, does eliminate some of these disadvantages. Many goods and services that are traded in this manner have uniform attributes or characteristics, which eliminates negotiations on product specifications and quality; negotiations and transactions are completed according to trading rules established by the marketplaces, which facilitates negotiation and execution of deals; and in many cases, the prevailing, or "market," prices at which parties are willing to transact in goods and services are published or otherwise readily available to those interested in transacting in those goods and services, eliminating the need to negotiate price. This general availability of information and certainty as to terms facilitates a more efficient marketplace in which less time is required to discover and negotiate terms, more transactions may be completed, and transactions costs can be reduced. However, stock markets, commodity exchanges and brokerage houses usually insert a middleman, typically a broker, between the buyer and the seller that charges a fee or a commission to complete the transaction. In fact, access to many markets and exchanges may be obtained only by using a broker.

Summary of Invention Paragraph:

[0009] U.S. Pat. No. 6,058,379, assigned to Auction Source, L.L.C., is entitled as a real-time network exchange with seller-specified exchange parameters and interactive seller participation. The patent describes the electronic exchange of goods and services via an electronic network. It is said that sellers and buyers access the exchange to list items and bid on listed items via client terminals. It is said that an individual is empowered to circumvent third parties to ensure that an exchange is as fair as possible. Users of the system include sellers that list items to be sold and buyers who can access the list of items for sale and can buy an item.

Summary of Invention Paragraph:

[0010] U.S. Pat. No. 5,845,265, assigned to MercExchange, L.L.C., is entitled as consignment nodes and is said to describe a method and apparatus for creating a computerized market for used and collectible goods. The abstract states that a plurality of low-cost posting terminals and a market maker computer are used in a legal framework that establishes a bailee relationship and consignment contract with a purchaser of a good.

Summary of Invention Paragraph:

[0011] U.S. Pat. No. 5,724,524, assigned to Pitney Bowes, Inc., is entitled as a method and system for listing, brokering, and exchanging carrier capacity. It is said that the invention is a method and system for listing and brokering a commodity and its financial derivative. It is said that a plurality of characteristics of a particular commodity can be entered into a data processing system. It is further stated that financial derivatives can be established and that

with the establishment of derivatives classes, a financial exchange market for those derivatives can be established.

Summary of Invention Paragraph:

[0015] For purposes of the description of the invention, the party that uses the system to establish and transmit to other parties prices at which it is willing to purchase or sell goods and services is referred to as the "Party," and the parties who receive such information and who may elect to enter into transactions with the Party based upon such prices are referred to as "Counterparties." Parties and Counterparties may have employees or agents that use the system for entering into transactions on behalf of their employer/principal, which employees or agents are sometimes referred to as "traders." The goods and services that are available for purchase and sale through the system are referred to as "products;" while that term may imply tangible goods, such as natural gas, it also includes intangible goods or services, including financial products, natural gas pipeline capacity, or bandwidth.

Summary of Invention Paragraph:

[0016] In one embodiment, an application that is referred to as a "stack manager" software module enables the Party to create and maintain a list, or what is referred to as a "stack," of the Party's predetermined bid and offer prices for a product, and each of these prices can be associated with a predetermined volume of the product that the Party wishes to purchase or sell at that price. All potential Counterparties viewing the website see only a single bid price and a single offer price for a product, which is the Party's best bid and offer price for that product, and all potential Counterparties see the same bid price and the same offer price for that product. The system provides for a Counterparty's purchase or sale of a product at the displayed bid price or offer price, and after completion of that transaction at that displayed price, the stack manager software immediately (but not instantaneously) provides the next set of predetermined bid prices and offer prices from the stack for that product, which are transmitted over the computer network and displayed to potential Counterparties as the next available transaction. This system of continuously displaying products available for purchase or sale at displayed prices essentially provides for a continuously operating market for the product, where the Party is always willing to buy at the bid price or sell at the offer price displayed for the product.

Summary of Invention Paragraph:

[0018] Other aspects of the invention facilitate a Counterparty's ability to quickly and efficiently enter into transactions with the Party via a computer network. In one aspect of the invention, a step is provided for establishing a credit limit for a Counterparty and monitoring the Counterparty's remaining credit as transactions with the Party are executed. The method may further include suspending trading with a Counterparty when the established credit limit is reached. In another aspect of the invention, the method provides for a simplification of the process by which a contract for the purchase or sale of products is formed between the Party and the Counterparty.

Brief Description of Drawings Paragraph:

[0023] FIG. 2 is a screen print of a display of the "quotes page" in which products available for purchase or sale and their corresponding bid prices and offer prices and volumes may be viewed by a Counterparty, according to the present invention;

Brief Description of Drawings Paragraph:

[0024] FIG. 3 is a block flow diagram of additional steps involved in entering into a transaction for the purchase or sale of products, according to the present invention;

Brief Description of Drawings Paragraph:

[0037] FIG. 16 illustrates the steps for linking one stack to another to mitigate

foreign exchange risk that exists when the underlying product is to be offered in a currency other than the currency in which the product is normally traded, according to the present invention;

Detail Description Paragraph:

[0042] Introduction. This invention pertains to buying and selling goods and services over a computer network using a semi-automated system. Although the invention may be useful for facilitating the purchase or sale of practically any good or service, certain aspects of the invention make it particularly useful to a Party that is engaged in the business of buying and selling, or "trading," large volumes of products, entering into a large volume of transactions for such products, or both, as a principal for its own account. While certain aspects of the invention may be useful to an intermediary that merely introduces or "matches" counterparties seeking to enter into a transaction, to "brokers" who arrange and complete transactions for third parties for a fee, or to a number of counterparties that wish to engage in a variety of transactions with each other such as occurs on an "exchange," the present invention contemplates a single party using the invention to enter into transactions as a principal for its own account with multiple counterparties.

Detail Description Paragraph:

[0044] Background. In the recent past, trading in many types of products such as natural gas, electricity, crude oil, cracked distillate products, metals, forest products, precious stones and minerals, agricultural products and other commodities has been conducted largely over the telephone or through organized markets or exchanges. A trader that bought and sold such products relied extensively upon the telephone and personal contact between the trader and his or her customers or brokers for information regarding the available markets for particular products; a substantial portion of trades was negotiated between the party and their counterparty, or was completed between a party and its broker. Up-to-date information on the market for the particular product was important in order to complete a transaction, and a trader's productivity depended to a great extent on the trader's ability to negotiate a substantial number of transactions quickly and efficiently and on favorable terms.

Detail Description Paragraph:

[0045] As markets for certain products became more developed, market liquidity (that is, buyers and sellers willing to transact and volumes available for purchase and sale) increased, customers became more sophisticated, products became more complicated, and market prices and trading volumes demonstrated greater degrees of volatility. For example, the natural gas and electricity markets have become increasingly volatile in recent years, with product prices and product availability changing in seconds, and often in great orders of magnitude. These markets have also become increasingly competitive with the addition of a substantial number of market participants. In this environment, a trader's productivity and profitability can depend heavily upon having access to timely and reliable information regarding the market in which the trader is trading, and being able to enter into a large volume of trades quickly. Also, a company that trades a large volume of products can be in a unique position to make a market in those products provided that it can meet the demands of the other participants in the market, such as immediate access to reliable information regarding the market and efficient execution of transactions.

Detail Description Paragraph:

[0046] Natural gas and electricity traders have typically used various combinations of the telephone, facsimile, e-mail, and proprietary trading networks to complete transactions. These methods allowed a party to communicate and negotiate with a single counterparty, but did not give a party access to the broader market (several potential counterparties at one time). Exchanges provided a party with access to the broader market, but often required use of an intermediary that charged a

commission. It is believed that prior to this invention there was no concentrated marketplace on a computer network for the trading of commodities such as electricity and natural gas directly between a large number of potential buyers and sellers without the need for a broker to facilitate the transactions.

Detail Description Paragraph:

[0048] Introduction to the Figures. Turning now to the figures, one embodiment of the present invention is set forth for trading in products over the internet, where the Counterparty has access to a website on the internet. The Party provides and maintains the internet website, which in current technology uses the worldwide web. The figures first illustrate those aspects of the invention that are visible and apparent to the Counterparty, including a system providing for (i) a Counterparty's initial access to the system, (ii) a Counterparty becoming appropriately "qualified" to transact via the system, and (iii) a Counterparty entering into transactions with the Party through the system. The figures then illustrate those aspects of the invention that are not visible to or accessible by the Counterparty, but are visible to and used by the Party to provide for (i) the Party placing a product on the website to make it available for purchase or sale, and (ii) the Party determining prices and volumes of products available for purchase and sale and thereby making the Party's "market" for those Products, and (iii) the Party's management of the various products that are available for purchase and sale on the website.

Detail Description Paragraph:

[0053] Upon a master user's first log-in to the website in a step 14 (see FIG. 1), the electronic trading agreement (the "ETA") is displayed online to the master user in a step 16. The ETA, like the PA, is conformed to the laws of the country in which the Counterparty is transacting via the website, and, among other things, establishes a contract between the Party and the Counterparty with respect to the use of the website, the process in which a legally valid and binding contract for purchase or sale of a product may be created through the website (which is discussed in more detail below). The ETA may also include representations, warranties, covenants, provisions regarding execution of transactions, limitations of liability, indemnities and confidentiality provisions similar those typically included in standard commercial arrangements, and other rules for entering transactions through the website to, among other things, reflect particular market or industry customs and practices.

Detail Description Paragraph:

[0056] Steps 14-20 apply to a Counterparty's first access to the website. Afterwards, as indicated in a step 22, a Counterparty may "log on" to the system using his ID and password, and is ready to enter the "quotes" area to view the products available for purchase and sale and to potentially enter into transactions.

Detail Description Paragraph:

[0058] In the quotes page (step 24), the Counterparty has a number of options for customizing his view and navigation of the quotes page, including creating filters that strain out information that he does not want to view and composites that aggregate information that he does want to see, for the purpose of organizing and displaying only those products that are of interest to the Counterparty. Products can be filtered by country, region, deal type, commodity, currency or category. Once filters are created, the results can be saved into sections named by the Counterparty and located within composite pages, and the composite pages can be named by the Counterparty as well. Counterparties can create multiple sections within multiple composite pages. By combining the individual products and filters, many products can be displayed in small groups. As indicated in step 26, the Counterparty can also search for information and read various notices.

Detail Description Paragraph:

[0060] With reference to FIG. 3 and continuing to describe process flow 10, once a Counterparty has determined that it is prepared to submit an offer to enter into a transaction for a product at the bid or offer price then displayed on the website for that product, the Counterparty simply "clicks" once on the bid or offer price displayed on the quotes page for the product in which they want to transact. A submission window 34 displaying the type of transaction (a purchase or a sale), price and volume data that the Counterparty "clicked" on in the quotes page appears, with options that a Counterparty may use to adjust the volume and price range and establish price range limits. FIG. 4 provides an example of a submission window.

Detail Description Paragraph:

[0062] A Party may have a limited volume of product available for sale or purchase at a particular price, which volume will fluctuate as transactions are completed. The Counterparty may also elect to submit an "all or nothing" offer, in which the Counterparty will not enter into a transaction unless it can purchase the entire volume submitted at the specified price; the alternative option (which is automatically selected by default) is the "Accept Partial Volume" option, in which the Counterparty will purchase or sell whatever volume is available at the specified price. Because of "web latency," or the delay associated with transmitting data over the internet, the entire volume displayed with a particular bid or offer price may not be available by the time a Counterparty's offer reaches the Party (for instance, the volume may have been reduced by a transaction completed immediately prior to receipt of the Counterparty's offer, or the entire volume at a particular price may have been purchased, causing additional volumes to become available but at different prices). The Counterparty can establish a "price limit order," which allows the Counterparty to set a desired price for a purchase or a sale transaction. If the Party's displayed offer/purchase or bid/sale price moves to the Counterparty's desired price, the transaction can be completed.

Detail Description Paragraph:

[0064] At the point that the Counterparty is ready to submit his offer described in the submission window, the particular product, price, and volume associated with the offer have been established. However, there may be a need for the parties to establish other particular terms and conditions of the potential transaction, such as measurement, transportation and delivery of product, product quality standards, and payment terms. Most parties typically have a set of non-negotiable, pre-established terms and conditions, or a "form agreement", upon which they would be willing to enter into a transaction with any other party; however, parties that routinely enter into transactions with each other in particular products may have specifically negotiated contracts to govern all transactions between them in those products. All of these agreements are similar in that each set forth terms and provisions governing transactions in a product (i.e., transfer of title, termination rights, provisions for security, operational conventions such as transportation and delivery), payment methods and payment periods, taxation, force majeure, and penalties for non-performance; however, form agreements are often more general in nature and accepted by the parties "as is," while negotiated agreements are typically more detailed and precise and reflect a unique business relationship between the parties. The system permits transactions to be completed under both the more general "form agreements," which are referred to in the current embodiment as "general terms and conditions" or "GTCs", or agreements that are specifically negotiated by the parties, which are referred to in the current embodiment as "master agreements."

Detail Description Paragraph:

[0065] In the current embodiment, the ETA states that all transactions in a particular product will be governed by either (i) an already existing master agreement between the Party and the Counterparty, or (ii) the general terms and conditions ("GTCs") that have been established by the Party to apply to transactions in that particular product, which are available for viewing on the

website by the Counterparty. In the current embodiment, when a Counterparty that is not a party to a master agreement with the Party for a particular product offers to enter into a transaction in that product for the first time, the relevant general terms and conditions ("GTCs") for that product will be displayed online to the Counterparty, and the Counterparty must accept, by "clicking" on a designated space on the GTCs, the terms of the GTCs in order to proceed with the transaction. A Counterparty need only accept the GTCs for a particular product once; the GTCs are not required to be displayed (although the Counterparty may always view them at any time) or agreed to for subsequent transactions in a product where the GTCs had been agreed to for the initial transaction in that product. Counterparties that have valid master agreements for a particular product type will enter into transactions for those products pursuant to those master agreements instead of GTCs and are therefore not required to accept GTCs online to trade the relevant product types (which are defined below). In the current embodiment, at that point that a Counterparty is prepared to submit an offer, the system "attaches" the applicable contractual terms and provisions to the transaction. The customer is informed if a transaction is done under an existing master agreement or under GTCs through a transaction summary screen including the key terms of the transaction that appears when a transaction is completed.

Detail Description Paragraph:

[0072] The Product Manager Software. The foregoing describes those elements of the invention that a Counterparty may access or see in the course of entering into transactions with the Party through the website. The system also provides the Party with several tools that enhance the Party's ability to quickly and efficiently transact with Counterparties via the website. The Party uses a "Product Manager" software to create, describe, and manage products available for purchase and sale on the website; the Party uses the "Stack Manager" software to establish and display prices and volumes for products that are available for purchase or sale on the website, and to manage the Party's transactions in those products on the website.

Detail Description Paragraph:

[0074] The Party uses the Product Manager to create accurate and detailed descriptions of the products that are available for purchase or sale through the website. In order to ensure a binding contract and minimize commercial disputes, the parties to a transaction should, at the inception of the transaction, agree to all of the key terms of the transaction; in a purchase and sale of a product, these terms include the specifications and attributes of the product that is being purchased or sold. Product Manager software is used for creating descriptions of products that are sufficiently detailed to clearly identify the product that is the subject of a transaction entered into via the website, quickly make new products available through the website, activate or deactivate existing products, and make changes to products.

Detail Description Paragraph:

[0075] In the current embodiment, the Product Manager creates a product description by combining the product's various attributes. Depending upon the product, there can be a number of different attributes describing that product; by way of example, attributes of a natural gas product may include some or all of the following: the commodity (natural gas); product type (e.g., physical forward firm); region (e.g., U.S.); delivery location (e.g., the Henry Hub, a well-known U.S. delivery location for natural gas); index (e.g., Gas Daily, a published natural gas price index); term (the period of time over which delivery is to occur, e.g., February 2000); and currency (the currency in which payment for the product is to be made, e.g., U.S. dollars). A Party uses product manager software to "build" a product description by combining the product attributes that the Party selects. This ensures consistency in the form of descriptions for all products that are available for purchase and sale on the website, regardless of the individual trader that created the product.

Detail Description Paragraph:

[0077] The "product type" is comprised of country, commodity, deal category, deal type, and firmness attributes; examples of a product type are Canadian Firm Physical Gas Forward, or U.S. Gas Physical Forward firm. An individual product within this product type would include the reference period (for a gas product, the delivery period, such as April 2000), and currency and unit of measure (for a US gas product, U.S. dollars per MMBTU). Product additional information is additional information, specifications or attributes, varying by product, that are considered necessary to adequately describe the product for purposes of ensuring an agreement among the parties as to the specifications of a product and supporting a binding contract for the purchase or sale of the product. Certain of the attributes found in the product additional information have an associated abbreviation that is used in the short description and an associated sentence (or group of sentences) that is added to the long description.

Detail Description Paragraph:

[0081] A US gas financial Swap Transaction with Party, under which either (A) for the case in which Counterparty submits an offer to buy from Party, Counterparty shall pay the Fixed Price and shall receive the Floating Price, each in respect of the Notional Quantity per Determination Period; or (B) for the case in which Counterparty submits an offer to sell to Party, Counterparty shall receive the Fixed Price and shall pay the Floating Price, each in respect of the Notional Quantity per Determination Period. Each calendar month during the term of the Transaction will be a Determination Period. The Notional Quantity per Determination Period is the volume submitted multiplied by the number of days in the relevant Determination Period. The Payment Date(s) will be 5 business days after both the Fixed Price and the Floating Price are determinable. The Floating Price shall be the average of the Index for each day in the relevant Determination Period. The term of the Transaction shall correspond to the date(s) set forth in the Product description on the Website. The Fixed Price shall be the settlement price for the last scheduled Trading Day of the NYMEX Henry Hub Natural Gas Futures Contract, modified by the price submitted by the Counterparty on the Website, for the applicable Determination Period. The Index shall be the first price published during the applicable Determination Period by the Inside FERC's Gas Market Report in the section "Prices of Spot Gas Delivered to Pipelines" under the heading El Paso Natural Gas Co., Permian Basin. The price is quoted in US Dollars per unit of volume, which will be the Contractual Currency. The unit of measure against which the price is quoted shall be millions of British thermal units and the quantity shown shall be in millions of BTUs per day.

Detail Description Paragraph:

[0083] Product Manager software also enables a party to avoid mistakes while using the stack manager to establish prices or volumes of products that are available for purchase or sale through the website. As discussed in more detail below, a Party may use the stack manager to manually enter into the system the Party's bid and offer prices and related volumes for products. Typographical errors can result from the process of keying in this data, and because the invention uses an automated system for completing transactions as discussed above, errors in price or volume data may not be detected until after a transaction has been completed by the system. The product manager permits a Party to install "checks," also referred to as "garbage checks," on the information that a Party enters into the system to assist the trader in identifying erroneous data before it is displayed to and possibly transacted upon by potential Counterparties. Errors commonly occur in entering a price; the product manager may set price checks as a percentage price check, in which the system will identify a price that is outside a specified percentage of the price at which the immediately preceding transaction was completed. Alternatively, the product manager may set price checks as an absolute price check, in which the system will identify a price that is outside a specified deviation from the price at which the immediately preceding transaction was completed. An initial garbage check price must be specified so that the system has

a baseline to measure against when the first real price is entered into the system. A Party may specify that the system will provide a warning before permitting the Party to proceed with entering the price, or may specify that the system will simply fail to add a new price.

Detail Description Paragraph:

[0109] As an example, assume that a trader has 100,000 MMBtu's of natural gas at a source location. He also has available transportation to three distinct delivery locations A, B and C. As the trader only has 100,000 MMBtu's available for sale, he offers for sale the full amount of 100,000 MMBtu's at each of locations A, B and C. Because natural gas for delivery at location A, B and C are three different products in the system, each product is assigned its own "stack." If 10,000 MMBtu's are sold at location A, the trader will have 90,000 MMBtu's remaining for sale. The syncopated stack configuration will automatically adjust the volumes that are offered for sale at locations B and C. In creating the syncopated configuration, the trader should establish either A, B or C as the parent location. Thus, if he chose A as the parent, he would establish each of B and C with A as the base (parent) product.

Detail Description Paragraph:

[0110] Syncopated basis stack 86 is a combination of a basis linked stack and a syncopated stack. Here, volumes in the stack for the product are linked to volumes in the base product (in the manner set forth in the description of the syncopated configuration described above), and the prices for the product are linked to the price of the base (parent) product in the configuration (in the manner set forth in the description of the basis linked stack described above) (FIG. 14). In this case, a trader may have available a specified amount of power at a central hub location called H. He wishes to offer to sell this power at any of the delivery locations D, E or F. Transmission capacity is available to each of these locations, but only enough to accommodate the amount of power that he has available at location H. Because of transmission constraints, the products at locations D, E and F typically trade as basis products with the base product being power for delivery at the hub location H, and the basis prices reflecting, among other things, the costs of transportation to locations D, E and F.

Detail Description Paragraph:

[0112] While a trader managing stacks may manually change bid or offer prices or volumes within a stack, a trader may also change bid and offer prices in a stack in an automated fashion by utilizing one of the price reset features illustrated in FIG. 15. This feature allows the trader to manage his product through changes in the market in an automated fashion using the stack manager software so that the trader does not need to continually monitor the market for his product and manually change prices to adapt to those changes in the market. In step 96, a trader selects a type of price reset, which updates bid and offer prices after a transaction is completed. There are three types of price resets that can be selected for each stack: (i) a manage market depth reset 98; (ii) a last trade is mid reset 100; and (iii) an offset to last trade reset 102.

Detail Description Paragraph:

[0114] Alternatively, a trader may select a type of price reset that, immediately upon execution of a transaction in a product, automatically adjusts the next best bid and offer prices and volumes in the stack for display to potential counterparties on the website for the next transaction. When price is reset using "last trade is mid" reset 100, a trader specifies a spread amount and a reset volume in step 104. The spread amount is used to determine the next available bid and offer prices after a transaction has been completed. The prices of next best bid or offer are adjusted to reflect a spread between the bid and offer prices with the last transaction price as the mid-point of this spread. The reset volume is used to replenish volumes available for purchase and sale after the previously available volumes have been purchased or sold. When the volume of the best bid or

offer falls below the minimum volume specified for the product, additional volumes are automatically added to the bid or offer column (depending on whether the bid or offer entry is depleted) in the amount specified in the reset volume cell. When selecting last trade is mid reset 100 for the stack, one sets a spread amount that remains constant.

Detail Description Paragraph:

[0118] When prices are reset using "offset to last trade" reset 102, one also specifies an offset amount in step 102 and a reset volume in step 106 (FIG. 15). Upon completion of a transaction in which the bid volume or offer volume falls below the reset volume, additional volume equal to the reset volume is entered into the bid or offer column (depending on whether the bid or offer volume has been depleted). The new bid price or offer price is the price at which the immediately preceding transaction was completed, minus the offset value if the bid price is being adjusted and plus the offset amount if the offer price is being adjusted.

Detail Description Paragraph:

[0121] With reference to FIG. 16, a Party may wish to create a product that trades in a currency other than the currency that the product is typically offered in; for example, a party may wish to offer or purchase a U.S. natural gas product in Canadian dollars. In order to create this product in the system, the Product Manager will be required to include two associated currency fields in a currency stack type FX (for foreign exchange). In step 114, the first currency is that associated with the underlying (or valuation) curve for that product, labeled 'Normally Trades In.' The second currency is the one in which prices are shown to clients on the web, labeled 'Offered In.' Products that have different values for these two fields are assumed to have embedded in them risk associated with fluctuations in foreign exchange rates, or what is also referred to as "FX risk.". Such products are automatically identified as potential FX candidates within the stack manager application.

Detail Description Paragraph:

[0122] A trader may link these products to a foreign exchange product to mitigate the foreign exchange risk associated with these products in step 116, selecting an update button 118 so that a new foreign exchange link becomes automatically effective in step 120. The FX exchange product to which the commodity stack is linked appears in the dependencies window. The FX exchange products are also visible from within FX manager, which is a separate application used by an FX trader to manage FX products. The prices entered by the trader through the stack manager are entered in the underlying currency, and the FX exchange product then converts the stack prices to the bid and offer prices in the currency in which the product is to be offered.

Detail Description Paragraph:

[0123] FIGS. 17 and 18 illustrate screens that can be used to implement a foreign exchange link, and the following is an example of an FX transaction. Assume that the product is a sale by the Party (and a purchase by the Counterparty) of Canadian gas for delivery in February 2000 at AECO which typically trades in Canadian dollars, but in this case specifies U.S. dollars as the currency, and assume that the FX manager has a foreign exchange product converting U.S. dollars to Canadian dollars in February 2000 as follows:

Detail Description Paragraph:

[0124] The stack manager would display the prices in Canadian currency, or the underlying currency; the foreign exchange manager converts those prices to the "offered in" currency and displays the as-converted price on the website to potential Counterparties.

Detail Description Paragraph:

[0125] Assume that the Counterparty clicks on the Party's offer price for 5,000

units of the above Canadian gas product. There are two transactions. One transaction is the commodity transaction in the underlying currency of the commodity. In the above example this would be a sale of 5000 units of natural gas by the Party to XYZ Energy as illustrated below.

Detail Description Paragraph:

[0126] The other transaction is in the FX exchange. In this example this would be a sale of U.S. dollars and be shown in stack manager as illustrated below.

Detail Description Paragraph:

[0127] When setting up a FX exchange product, a tolerance level should be specified for the product. The tolerance level specifies the minimum amount of FX product that must be made available at all times. If the quantity of the FX product falls below the tolerance level then the FX product will be automatically suspended, and the commodity stacks to which the FX product is linked will also be automatically inactivated. Consider an average trade size as 10,000 for CAD PHY Fwd FIRMAECO FEB00 USD/GJ. If one takes an average CAD/USD rate of 1.40 and a price of 1.56 USD/GJ then the total CAD required for one trade is:

Detail Description Paragraph:

[0128] $10,000 * 29 \text{ days} * 1.40 (\text{FX rate}) * 1.56 (\text{commodity price}) = 642,408.$

Detail Description Paragraph:

[0129] Therefore for this product the FX tolerance quantity should be set at a minimum of C\$650,000 and the quantity offered through the stack manager should be for 10,000 GJ. An FX trader should maintain a quantity of the FX exchange product that is at least two or three times a multiple of the tolerance quantity as this will allow a couple of trades to occur before having to replenish the quantity level

Detail Description Paragraph:

[0130] Where the bid and offer quantity for the FX product is greater than the tolerance quantity, the FX product will remain active regardless of the volume offered on the underlying commodity product. In this case where the bid and offer quantities on the website are greater than the bid or offer quantity in the FX exchange product, then the customer's transaction will fail because there is insufficient FX exchange product available to cover the transaction. For this reason one should ensure that the tolerance quantity and the average or normal trade size are always in approximate correlation with each other.

Detail Description Paragraph:

[0131] Performing Credit Checks. The system also provides for a means of ascertaining that a Counterparty has credit available with the Party in an amount sufficient to complete the transaction presented by the offer. While the system can be adapted to accommodate other means of settlement, or payment for, transactions entered into via the website, the current embodiment assumes that the Party and Counterparty have made some type of arrangements for the extension of credit between them to permit execution of transactions without immediate or simultaneous payment. Even in this event, however, because the system is largely automated, the total dollar volume of transactions entered into with any particular counterparty could easily involve substantial sums of money exceeding the level of credit that a party is willing to extend to even the most creditworthy counterparty if there were no means of monitoring the total amount of a party's trading volume via the website and suspending trading activity if the counterparty exceeded established credit limits. The system thus provides a means for determining the Party's credit exposure on a proposed transaction, monitoring the Party's overall credit exposure to a particular counterparty, and failing to complete transactions that would result in a counterparty exceeding their available credit with the Party.

Detail Description Paragraph:

[0140] Applications such as stack manager, product manager, FX manager and data manager 154 and 156 would also connect to the database 152. These applications would be used to create and maintain data in the database. Changes made via these applications would then be communicated back to the user or counterparties via the application servers 150 and web servers 148.

Detail Description Paragraph:

[0142] The stack manager software described herein provides the Party with a mechanism for managing different bid and offer prices for a product. A Party can determine bid and offer prices (and associated volumes) for a trading period such as a day; activate the stack manager to display the best bid and offer price available at any particular time to potential Counterparties; and execute hundreds of transactions in an automatic mode, without a need for personal contact between the Party and the Counterparty to negotiate, execute, and document each and every trade. The trading efficiency of the Party is consequently much higher than the traditional method of personal contact for each and every trade, because the trader can manage an overall trading strategy and have time to obtain and analyze information as a market for a product changes throughout a trading day.

CLAIMS:

1. A method for a party to buy and sell goods and/or services from and to a plurality of counterparties over a computer network, the method comprising the steps of: determining a bid price and an offer price at which the party is willing to buy or sell, respectively, a good or service; maintaining a list of determined bid prices and offer prices in a computer that is part of or linked to the computer network, wherein the list can be viewed, edited and maintained by the party, but cannot be viewed by any counterparty; providing the determined bid price and offer price for the good or service to the plurality of counterparties over the computer network, wherein the determined bid price and offer price that is provided is from the list; receiving an offer to sell the good or service at the bid price from a first counterparty over the computer network; buying the good or service at the bid price from the first counterparty upon receipt of the offer to sell; receiving an offer to buy the good or service at the offer price from a second counterparty over the computer network; monitoring and evaluating a credit headroom before selling the good or service to the second counterparty using a computer software, wherein the computer software is adapted to determine whether the credit headroom would be exceeded if the offer to buy from the second counterparty is accepted; selling the good or service at the offer price to the second counterparty upon receipt of the offer to buy and after determining the credit headroom would not be exceeded, wherein there is no requirement to pay a commission to a third party for either the purchase or the sale of the good or service; and providing to the plurality of counterparties over the computer network a next-determined bid price and offer price from the list so that the next-determined bid price and offer price is displayed to the plurality of counterparties nearly immediately after the party buys or sells the good or service, wherein a quantity, volume or an amount of the good or service is associated with each determined and next-determined bid and offer price.

7. A computer-automated method for a party to buy and sell commodities from and to a plurality of counterparties over a computer network, the method comprising the steps of: providing computer software adapted to allow communication between the party and the plurality of counterparties over the computer network; evaluating each of the plurality of counterparties to determine a limit on credit to extend to each counterparty; establishing contract terms with each counterparty for providing a governing contractual framework for automated buying and selling of the commodities between the party and each of the counterparties; specifying attributes for identifying each commodity to provide certainty in communications between the party and the counterparties for contemplated transactions, wherein the attributes are communicated to the counterparties over the computer network; establishing a

list in the computer software of bid and offer prices for specified volumes or quantities of a plurality of commodities, wherein the list is not communicated to the counterparties; providing a first bid price from the list for a first commodity to the plurality of counterparties over the computer network, wherein the party is willing to buy a specified volume or quantity of the first commodity at the first bid price; providing a first offer price from the list for the first commodity to the plurality of counterparties over the computer network, wherein the party is willing to sell the specified volume or quantity of the first commodity at the first offer price; receiving over the computer network from a first counterparty an offer to buy the specified volume or quantity of the first commodity; using the computer software to automatically evaluate whether selling the specified volume or quantity of the first commodity to the first counterparty would exceed the first counterparty's credit limit; completing a first transaction, without human intervention, by selling the specified volume or quantity of the first commodity to the first counterparty, provided the first counterparty's credit limit will not be exceeded; providing a second bid price from the list for the first commodity to the plurality of counterparties over the computer network, wherein the party is willing to buy a specified volume or quantity of the first commodity at the second bid price; providing a second offer price from the list for the first commodity to the plurality of counterparties over the computer network, wherein the party is willing to sell the specified volume or quantity of the first commodity at the second offer price; receiving over the computer network from a second counterparty an offer to sell the specified volume or quantity of the first commodity; completing a second transaction, automatically and without human intervention, by buying the specified volume or quantity of the first commodity from the second counterparty; and providing bid and offer prices for the plurality of commodities for completing additional transactions.

10. The method of claim 7, wherein the commodities include natural gas, electricity, crude oil, cracked distillate products, hydrocarbon-based products, financial swaps, credit derivatives, bandwidth, lumber, and/or metals.

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